

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 COME-00 EB-07 LAB-04 SIL-01 TRSE-00
OMB-01 /078 W

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R 031207Z JUN 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 4668
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY OSLO
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
USMISSION NATO
AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY CANBERRA
AMEMBASSY LISBON
AMEMBASSY MADRID
AMEMBASSY OTTAWA
AMEMBASSY REYKJAVIK
AMEMBASSY TOKYO
AMEMBASSY PARIS
AMCONSUL BELFAST
AMCONSUL EDINBURGH

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E.O. 11652: GDS
TAGS: PGOV PINT PFOR ELAB EGEN UK
SUBJECT: MAY: SUMMITS AND ALL THAT

REF: LONDON 7359

SUMMARY: MAY IN BRITAIN WAS A MIXED MONTH. FOCUS OF

WORLD PRESS ATTENTION/BECAUSE OF THE ROUND OF SUMMITS, THE NATION GIRDED ITSELF FOR THE ON-COMING JUBILEE IN EARLY JUNE. DOMESTICALLY, HOWEVER, THE SIGNS FLUTTERING IN THE MAY BREEZE WERE NOT ALL THAT JUBILANT: A STILL FALTERING ECONOMY, DOUBTS ABOUT A THIRD YEAR OF MEANINGFUL PAY RESTRAINT, LABOR DEFEATS IN THE LOCAL ELECTIONS, AN UPROAR OVER THE JAY APPOINTMENT TO WASHINGTON, AND CONTINUING CONTROVERSY ON DEVOLUTION. NORTHERN IRELAND TURNED BRIGHTER WITH THE COLLAPSE OF THE GENERAL STRIKE AND ELECTORS SEEMING TO FAVOR POLITICAL ACCOMMODATION. END SUMMARY.

1. MAY WAS A MONTH OF SUMMITS FOR BRITAIN--THREE OF THEM CONSECUTIVELY, ALL DOMINATED BY THE PRESENCE OF PRESIDENT CARTER IN HIS FIRST TRIP TO BRITAIN AS PRESIDENT. THE DOWNING STREET SUMMIT BROUGHT THE LEADERS OF THE US, UK, THE FEDERAL REPUBLIC OF GERMANY, FRANCE, ITALY, CANADA AND JAPAN TO DISCUSS THE WORLD'S ECONOMIC PROBLEMS AND WHAT THE MAJOR INDUSTRIALIZED NATIONS COULD DO; UNEMPLOYMENT AND REFLATION WERE THE CHIEF TOPICS. THE NATO SUMMIT DEALT WITH THE STATE OF THE WESTERN ALLIANCE AND THE SOVIET THREAT; AND THE FOUR POWER MEETING REAFFIRMED WESTERN COMMITMENT TO BERLIN.

2. THE PRESIDENT BEGAN HIS VISIT TO THE UK BY TOURING THE NEWCASTLE AREA WITH THE PRIME MINISTER, PLANTING A TREE IN THE ANCESTRAL WASHINGTON ESTATE, AND GENERATING A GREAT DEAL OF PUBLIC INTEREST AND ACCLAIM. THE MAJOR FOCUS OF THE MYRIAD NEWSHOUNDS FLOODING LONDON WAS

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CARTER, AND THE VISIT FOR HIM WAS A MAJOR SUCCESS.

3. HIS HOST, PRIME MINISTER CALLAGHAN, BASKED IN REFLECTED GLORY, CREATING A GENIAL IMAGE HOBNOBBING WITH THE GREAT. POLITICAL CAPITAL DERIVING FROM THE SUMMIT WAS, FOR CALLAGHAN, SHORT-LIVED AND ALMOST IMMEDIATELY DISSIPATED BY "L'AFFAIRE JAY," HIS APPOINTMENT OF HIS SON-IN-LAW AS AMBASSADOR TO WASHINGTON. CALLAGHAN, OFTEN SO SUREFOOTED IN WALKING ON POLITICAL EGGS, SEEMS TO HAVE BADLY MISCALCULATED THE CRITICISM THE APPOINTMENT WOULD AROUSE, NOT SO MUCH FROM HIS CONSERVATIVE OPPOSITION AS FROM HIS OWN PARTY (TORIES MOVED INTO THE ATTACK ONLY AFTER THE PRESS REPORTED A RATHER HAM-HANDED EFFORT TO DISCREDIT JAY'S PREDECESSOR, SIR PETER RAMSBOTHAM). THE AFFAIR ALSO CAST SOME MUD ON THE ESCUTCHEON OF FOREIGN SECRETARY OWEN, WHO SPENT AN ACTIVE MONTH ON SUMMIT PROBLEMS AND ON THE RENEWED ANGLO-AMERICAN INITIATIVE ON RHODESIA.

4. THE MONTH HAD STARTED BADLY FOR LABOR ANYHOW AS THE RESULTS OF THE LOCAL ELECTIONS MAY 3 AND 5 SHOWED CONTINUING DIMINUTION OF LABOR SUPPORT, A CONSIDERABLE SWING TO THE CONSERVATIVES, AND A WANING OF LIBERAL SUPPORT (EXCEPT IN SCOTLAND) WHICH MOST OBSERVERS ATTRIBUTED TO A LACK OF VOTER SUPPORT FOR THE PACT WITH LABOR. CONSERVATIVES GAINED CONTROL OF 11 AUTHORITIES IN ENGLAND AND THE GREATER LONDON COUNCIL, WITH LABOR MAINTAINING

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SCOTLAND, LABOR LOST AS WELL, WITH THE BIG GAINS GOING TO THE SCOTTISH NATIONAL PARTY, BUT THE CONSERVATIVES AND THE LIBERALS ALSO DOING BETTER THAN HAD BEEN EXPECTED. OMINOUS WAS THE GROWING STRENGTH OF THE NATIONAL FRONT, PARTICULARLY IN METROPOLITAN AREAS. WHILE THE GOVERNING PARTY TRADITIONALLY DOES POORLY IN BRITISH LOCAL ELECTIONS, LABOR LOSSES REPRESENTED A SWING NATIONWIDE OF 12.9 PERCENT AGAINST LABOR SINCE THE LAST GENERAL ELECTION. LOCAL ELECTIONS, HOWEVER, ARE POOR INDICATORS OF GENERAL ELECTION RESULTS AND HAVE NO DIRECT EFFECT ON THE GOVERNMENT'S ABILITY TO REMAIN IN POWER. BUT THE OUTCOME WILL NO DOUBT REINFORCE CALLAGHAN'S CURRENT STRATEGY OF HOLDING OFF A GENERAL ELECTION AS LONG AS POSSIBLE, WITH LIBERAL SUPPORT, IN THE HOPE OF BETTERING LABOR'S PROSPECTS WHEN (AND IF) THE ECONOMY TURNS UPWARD.

5. THE GOVERNMENT DID NOT MEET WITH UNQUALIFIED SUCCESS DURING THE MONTH IN ITS EFFORTS TO PERSUADE TRADE UNIONS TO ACCEPT A PHASE THREE OF WAGE RESTRAINTS. BY ABOUT TWO TO ONE, VARIOUS TRADE UNIONS HAVE REJECTED FURTHER WAGE RESTRAINTS IN FAVOR OF A RETURN TO FREE COLLECTIVE BARGAINING, FORESHADOWING A POSSIBLE TUC-GOVERNMENT CONFRONTATION OVER THE ISSUE BY THE SUMMER OR EARLY FALL. THE GOVERNMENT SEEMS TO BE PREPARING A CASE FOR AN "UNDERSTANDING" WITH TRADE UNIONS ON THE NEED TO RESTRAIN WAGE INCREASES, PERHAPS WITH SOME GREATER FLEXIBILITY ON DIFFERENTIAL PAY, RATHER THAN A MORE FORMAL AGREEMENT.

6. ECONOMIC STATISTICS RELEASED IN MAY SHOWED NO SIGNIFICANT SIGNS OF IMPROVEMENT. RETAIL PRICES ROSE BY 2.6 PERCENT IN APRIL FOR AN ANNUAL RATE OF 17.5. UNEMPLOYMENT REMAINED VIRTUALLY UNCHANGED (5.6 PERCENT) AND MANUFACTURING INVESTMENT DECLINED IN THE FIRST QUARTER. THERE ARE INDICATIONS THAT THE GOVERNMENT IS NOW GIVING SERIOUS CONSIDERATION TO INCREASING THE STIMULUS CON-

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TAINED IN THE MARCH 29 BUDGET. THIS MIGHT TAKE THE FORM

OF AN END-OF-SUMMER PACKAGE OF ADDITIONAL INCOME TAX REDUCTIONS AND GOVERNMENT PROGRAMS TO STIMULATE EMPLOYMENT, ESPECIALLY OF YOUNG PEOPLE. THE GOVERNMENT COULD PROBABLY INCREASE THE TOTAL STIMULUS FROM 0.5 PERCENT OF GDP TO 1.0 PERCENT WITHOUT VIOLATING THE IMF LIMITS.

7. THE MAY SIGNALS ON DEVOLUTION WERE CONFUSING. WITH THE GOVERNMENT STILL TRYING TO FRAME ANOTHER VERSION OF A BILL, THE SCOT TORIES IN PERTH ALMOST REPUDIATED THEIR PARTY'S COMMITMENT TO AN ELECTED ASSEMBLY IN EDINBURGH, WHILE THE SCOT NATS, IN THEIR ANNUAL CONVENTION, CHANGED THEIR FIRST PRIORITY FROM DEVOLUTION AS A HALF-WAY HOUSE TOWARD INDEPENDENCE TO A FIRM CALL FOR FULL INDEPENDENCE FOR SCOTLAND. EVEN THE QUEEN GOT INTO THE ACT; IN AN UNPRECEDENTED REFERENCE TO POLITICAL AFFAIRS IN HER JUBILEE ADDRESS TO THE HOUSES OF PARLIAMENT, THE QUEEN POINTEDLY REFERRED TO HAVING BEEN CROWNED QUEEN OF SCOTLAND TWENTY-FIVE YEARS AGO. THEREAFTER, SHE RECEIVED A WARM WELCOME ON THE JUBILEE TOUR OF SCOTLAND AND THE ISSUE OF THE CROWN'S STATUS IN AN INDEPENDENT SCOTLAND AROUSED CONTROVERSY IN THE SNP CONFERENCE.

8. PERHAPS THE ONLY BRIGHT SPOT MAY OFFERED THE GOVERNMENT (OTHER THAN AN ENGLISH VICTORY AT THE SUMMIT OF EUROPEAN FOOTBALL) WAS UNEXPECTEDLY NORTHERN IRELAND. THE GENERAL STRIKE COLLAPSED MAY 13, INDICATING A FALL IN SUPPORT FOR HARD-LINE PROTESTANT POLITICAL LEADERS. RESULTS OF THE MAY 18 LOCAL ELECTIONS SAW A SLIGHT DECLINE IN THE SHARE IN THE POPULAR VOTE OF THE HARD-LINERS, ALTHOUGH THEY GAINED 71 LOCAL COUNCIL SEATS. PROTESTANT PARTIES OPPOSING THE STRIKE LOST BOTH SEATS AND VOTES, WHILE THE NON-SECTARIAN ALLIANCE PARTY AND THE PREDOMINANTLY CATHOLIC SOCIAL DEMOCRATIC AND LABOR PARTY REGISTERED GAINS IN BOTH CATEGORIES. THE MOVE AWAY FROM THE MORE MODERATE UNIONIST PARTIES AND TOWARD

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PARTIES FAVORING POLITICAL ACCOMMODATION IS THE MOST PROMISING NORTHERN IRELAND DEVELOPMENT IN SEVERAL YEARS, BUT IT IS NOT YET CLEAR WHETHER THIS SHIFT WILL BE SUFFICIENT TO BREAK THE CURRENT POLITICAL DEADLOCK.

9. AS THE NOT-SO-MERRY MONTH DREW TO A CLOSE, THE NATION GIRDED AND DECKED ITSELF FOR THOUSANDS OF TOURISTS AND AN ORGY OF POMP AND CEREMONIES TO MARK THE QUEEN'S SILVER JUBILEE.

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